

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BMR2124 - RETAILING

(All Sections / Groups)

19 OCTOBER 2018

3.00pm – 5.00pm

(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 4 pages with 4 questions excluding the cover page.
2. There are two sections in this question paper:
Section A: TWO (2) case questions. Attempt **ALL** questions.
Section B: TWO (2) structured questions. Attempt **ALL** questions.
3. Please write your answers in the Answer Booklet provided.

SECTION A: Case Questions [50 Marks]

Answer Question 1 and 2 based on the case below. Attempt ALL questions.

Tesco versus Sainsbury's: Service Offerings, Distribution Systems and Loyalty Programs

In 2008, the UK-based international food and general merchandising retailer Tesco reached a market share of about 30 percent in the United Kingdom, roughly the same as its rivals Sainsbury's and ASDA combined. In recent years, Tesco has greatly diversified, extending its business lines from food into non-foods, clothing, financial services, and telecommunications. It ranks sixth in the international retail market behind Wal-Mart (United States), Carrefour (France), Home Depot (United State), Metro (Germany), and Royal Ahold (Netherlands).

Tesco was not always the dominant player it is today. In 1990, it was a mid-sized food chain far behind its rival, Sainsbury's. Starting in the 1990s, it pursued a broad set of growth initiatives, steadily increasing its market share and gaining importance. In 1995, Tesco surpassed Sainsbury's to be the U.K. market leader. Today, Tesco is the clear market leader. How did that happen? Why was Tesco so successful in growing sales and profits, while Sainsbury's could not keep pace? Where did the competitive actions of these firms differ?

"An inclusive offer" is how Tesco describes its aspiration to appeal to upper, medium, and low income customers in the same stores. According to Citigroup retail analyst David McCarthy, "they've pulled off a trick that I'm not aware of any other retailer achieving. That is, to appeal to all segments of the market." One plank of this program has been Tesco's use of its private label products, including the upmarket "Finest" and low price "Value". Other examples include organic, kids, British special food, and "free from" brands. As Edward Garner, the communications director of the TNS Superpanel, remarks: "Tesco's winning formula is largely due to its ability to be all things to all people. According to TNS, over 60 percent of British households shop in Tesco every four weeks. That's 20 percent more than its nearest rival. The store appeals to wide-reaching demographics across the country and has built up a heritage of reliability and trustworthiness, which keeps shoppers returning to its stores. These factors have enabled Tesco to gain close to a third of the British grocery market."

Sainsbury's has also invested in private labels. A large Sainsbury's store typically stocks around 50,000 lines, of which about half are private labels. These lines include, for example, "Basics" (an economy range similar to Tesco's "Values"), "Taste the Difference" (a premium range similar to Tesco's "Finest"), "Different by Design" (a smaller range of premium non-food lines), "Kids," "Be Good to Yourself" (products with reduced calorific and fat content), "Free From," "Sainsbury Organic," "Fair Trade," and "Super Naturals" (a wide range of ready-made meals with healthy ingredients).

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While service offerings today are quite similar, the rivals' distribution strategies differ significantly. In common with most other large retailers, Tesco decided to draw goods from suppliers into regional distribution center for preparation and delivery to stores. Tesco is extending this logistic practice to cover collections from suppliers (factory gate pricing) and input to suppliers in a drive to reduce costs and improve reliability.

In contrast, Sainsbury's has heavily invested in fully automated depots. On January 14, 2000, Sir Peter Davis was appointed Sainsbury's CEO. This decision was well received by investors and analysts, as in his first two years he raised profits above targets. By 2004, however, the group had suffered a decline in performance relative to its competitors and fell to third in the U.K. food market. Davis oversaw an almost £3 billion upgrade of stores, distribution, and IT equipment. Part of this investment included the construction of four fully automated depots, which, at £100 million each, cost four times more than a standard depots.

Tesco was the first to launch a Clubcard system. It was introduced in 1995 and has become the most popular card in the United Kingdom, with around 13 million active Clubcard holders. Customers collect one Clubcard point for every £1 they spend in Tesco store, Tesco Petrol, or at Tesco.com. Every three months, holders receive a Clubcard statement offering discount coupons that can be spent in-store, online, or on various Clubcard deals. The program has numerous partners, but the Clubcard belongs to Tesco alone. Tesco implemented the Clubcard rewards program to gather customer information, which is then used to cater to specific potential customer needs and wants. When shoppers sign up for the card, they automatically submit their ages, genders, and incomes. Tesco segments their shoppers based on the basis of these factors. As soon as the shopper uses the card online or in-store, product information is automatically uploaded into the Tesco database. Product information is used to cross-sell additional products and services, such as food delivery.

On the other side, Sainsbury's was "wrong footed" in its original reaction to the Tesco Clubcard, showing no immediate response apart from disdain. It lost market share in subsequent years. In 2004, the London Times quoted a former executive and others who viewed this event as the start of the company's downturn due to management failure by David Sainsbury and his successors. After long internal debates, Sainsbury introduced the Sainsbury's reward card in 1996. Then, a multiparty card program, Nectar, was launched in the autumn of 2002, run by a third party company which collects information on behalf of the partner sponsors. Nectar gives the customers a versatile and powerful point-gathering system to be used and redeemed at a variety of stores. In Nectar, Sainsbury's has strong partners such as Barclaycard, British Petroleum, and the department store chain Debenhams. The Nectar card was re-launched in summer 2007 to celebrate its fifth anniversary. The scheme was changed from a reward to a treats based program and points on spending in-store are earned at a rate of two points per £1 spent; 500 points can be subsequently be exchanged for a voucher worth £2.50 to spend in Sainsbury's.

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QUESTION 1

Tesco's use of its private label products appeals to all segments of the market, including the upmarket "Finest" and low price "Value".

- a) Discuss **the THREE (3)** basic pricing options: discount, at-the-market, and upscale orientations. Justify which basic pricing options are most suitable to Tesco's Value and Finest private labels. (10 marks)
- b) Consumer market can be segmented into five categories based on price sensitivity: economic, status-oriented, assortment-oriented, personalizing, and convenience-oriented. Discuss these **FIVE (5)** categories of consumer market segments. (10 marks)
- c) Justify which consumer market segments are suitable to Tesco's Value and Finest private labels. (5 marks)

(Total: 25 marks)

QUESTION 2

Sainsbury's slow reaction to Tesco's Clubcard is viewed as the start of the company's downturn.

- a) If you were David Sainsbury, what promotional tool would you used to promote Sainsbury's first reward card in 1996? Discuss these **TWO (2)** promotional mixes supported by justification. (10 marks)
- b) Discuss **FIVE (5)** possible types of sales promotion Sainsbury's can use if they intend to launch "Xtreme Basic", an extreme economic range of private label to compete with Tesco's Value. (10 marks)
- c) Besides sales promotion, what are the other **TWO (2)** promotional mixes that Sainsbury can use to create awareness for the "Xtreme Basic" series of private label? (5 marks)

(Total: 25 marks)

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SECTION B: Structured Questions [50 Marks]**Attempt ALL questions.****QUESTION 3**

Data warehouse is where copies of all the databases in a firm are maintained in one location and are accessible to employees at any location. It is also a comprehensive compilation of the data used to support management decision.

- a) Discuss the **FOUR (4)** components of data warehouse. (10 marks)
- b) As bundles of data are collected internally in retailer's data warehouse (such as company records), discuss **THREE (3)** advantages and **TWO (2)** disadvantages of secondary data in retail decision making. (15 marks)

(Total: 25 marks)

QUESTION 4

Quality of retail strategy depends on how well a firm identifies and understand its customer, and how well it forms a strategy mix to appeal to them.

- a) Some individuals are more predisposed towards making impulse purchases than others. Discuss the following types of impulse purchase: completely unplanned, partially unplanned, and unplanned substitution. (15 marks)
- b) Discuss any **TWO (2)** possible retailer approaches in target marketing. (10 marks)

(Total: 25 marks)

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